App. F. IX-4

Previous References.

1936. (GF)

File No. 68-36

Serial Nos. 1

P.

Later References.

G.F. 219-40 (34-27)

GENERAL AND REVENUE SECRETARIAT.

Serial Nos. One.

Part B for Jan. 36.

SUBJECT.

Banking Legislation in Mysore.

Banking Legislation in Mysore

General & Revenue Secretariat — File No. 68 of 1936. 718 [App. F. III-2

Serial No.

G.S. 46-36-1

The Committee appointed to formulate proposals for developing the Bank of Mysore with a view to expand its operations reported in June 1932.

Among the recommendations made by the Committee, one was to place the Constitution of the Bank & its association with the Govt on a statutory basis. They considered that it would be well to await developments in British India on the Central Banking Enquiry Committee's report before embarking on a Banking Legislation in Mysore. Please see paras 15, 21 & 31 of the Report in G.F 237-33-1. The formation of an expert Committee was also suggested for examining the question.

2 Govt in their Order of 6.1.34 formally endorsed the views of the Committee.

3 The question was referred to the Industries & Commerce Board in July 1935. Mr. K. R. Ramaniyar drew up a note on the question & brought it up at a meeting of Trade, Commerce & Labour Sub-Committee of the I & C Board on 19.2.1936. Please see the Committee's proceedings in printed matter.

Page 3 of printed matter

NOTE—Contn. Sheet.

Banking Legislation in Mysore

G.2 File No. 68 of 1936 | General and Revenue Secretariat

4 The Committee resolved – para 10 of [redacted] Proceedings – that the Companies Legislation be amended on certain lines to provide for legislating the business of joint Stock Companies in the interests of the general public.

5 The question was again taken before a plenary session of the I.T.C. Board; who have resolved – vide concluding para of proceedings – that the introduction of Banking Legislation be deferred till after the draft Bill to amending the Companies act introduced in the Indian Legislative Assembly was passed into law & that if the latter did not become law in about a year, legislation be undertaken in Mysore on the lines chalked out by the Trade Sub-Committee.

6 Subd for orders if "A" be adopted.

(Secy) W 24/8

8/9/36 M

7 'A' above may I think be adopted

2nd dr) M 21/5 W 24/8

9 MM 7/9/36 M W

(10) Subd: with a draft to the Secy: Board of Education

W Mao 8/9/ M

11 This may kept by till Dec 36 W 9/9

Govs B till Dec: 1936. M

MGDS.

BECOND MEETING OF COUNCIL 3 SEPT. 1936 No. 1482

NS.

Banking Legislation in Mysore

General & Revenue Secretariat.

File No. of 193 [App. F. III–2

Serial No.

11 The Indian Companies Act has been amended & the amendment has become law. The Library will be requested to put up either a copy of the amended Act or the Part of the Gazette containing it.

12 4/12 (Librarian we)

13 A copy of the Gazette of India dt 7.11.36 (Consolt. Gazette) is here with put up for reference and early return to the Library.

14 Draft put up.

15 4/(xi)/36 (Fin: Secty)

16 Is any action being taken in this matter in the Development Secretariat?

17 (Dev: Sec we)

18 The Registrar of J.S. Companies who was requested to go into the question has reported that the amendments to the British Indian

GEN. & REV. SECRETARIAT
3025
10 DEC. 1936
DEVELOPMENT BRANCH

NOTE.—Contn. Sheet.

File No. 718/71 of 193 . General and Revenue Secretariat

Act may be introduced in the Legislature accordingly. The Dir RC was also requested to look into the matter and his reply is awaited. Legislt. Dept. Br. with compliments

?

W. S. K.

Refer. Para 16.

19 As this is a large question on which the Reserve Bank also is best consulted, it is for orders if the draft proposed may not issue supplemental to an reference from the Dev. Dr.

W Secy

24/1

24/1 W Does the new Companies Act in British India contain special provisions covering the recommendations of the Central Banking Enquiry Committee and our Board of Industries & Commerce. If not what action is contemplated there for Banking Legislation? The Companies' Act can apply only to Companies but Banking Legislation has to cover individuals & institutions doing Banking business other than Companies also.

7-1-37.

Dr Gray knows to put up his Gazette tomorrow morning 11 hrs. Vide slip infra

21/1/37

22 Please see Part X A - Banking Companies in the Indian Companies Act. Amended

Flag W.

Banking legislation in Mysore

General and Revenue Secretariat | File No. 68 of 1936 | [App. F. III—2

Serial No.

The new Act does not seek to implement any of the recommendations of the Central Banking Enquiry Committee. Neither does it purport to replace any legislation on the latter's report.

All that the Act does in reference to Banking is that "Banking" is defined & segregated from other known commercial operations. Another feature of the Act is that in matters of Cash Reserve & other statutory control, it exempts the Scheduled Banks from the Non-Scheduled ones under the Reserve Bank of India Act.

But it is this Act that the Id. Bd. referred to, when they suggested deferring legislation in Mysore.

For orders of the draft to the Dir of Ind may come or of the action said to have been taken by the Dev. Branch para 18 would do for the present.

7.8.: Secy) 10/8

10/2

As the Dev Branch is taking action to introduce changes in Banking legislation which are included in the New Companies Act — in Br India (vide para 18 above), this file also may be transferred to the Dev Br for

NOTE—Contn. Sheet.

WD 0417—GPB—30,000—8-9-36

Banking Legislation in Mysore

File No. J. S. 118/H 46. of 1936-7

General and Revenue Secretariat

Serial No. LF 2991

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2nd ed
Dewan

6/4/37

18/4/37

10-4-37

Dew Mr

BF SECOND Ed. NO 7040

DEWAN'S OFFICE 10 APR 1937 4365

12.4.37

The question of amending the Companies' Regulation is under consideration in the linked file. The question of legislation to control banking may also be taken up along with that subject

15/4/37

Please see the linked file

Dew Sey 15.4.37

A copy of G.O. D 160-67/J.S.-33-35-8 dt 6-7-1937 appointing a Sub Committee to draft the Bills (Co-op Amendment Bill amending Banking Act) is put up.

B. 9/12/37

CONFIDENTIAL.

BOARD OF INDUSTRIES AND COMMERCE.

Trade, Commerce and Labour Sub-Committee.

PROCEEDINGS OF THE MEETING HELD ON WEDNESDAY THE 19TH FEBRUARY 1936 AT 3 P.M.

PRESENT.

1. *Rajasevasakta* Mr. S. Hiriannaiya, M.A., B.L. (*Chairman*).
2. S. Abdul Wajid, Esq., B.A.
3. Dr. B. Narasimha Iyengar, B.A., Ph.D.
4. M. R. Narasimha Iyengar, Esq.
5. K. Srikantaiya, Esq.

Mr. H. K. Ramiengar, M.A. (Hons.) (*Secretary*).

ABSENT.

1. P. W. O'Brien, Esq. (Letter expressing his inability to attend the meeting was received).
2. *Dharmapravartha* Mr. M. L. Nagappa Setty. do
3. The Registrar of Co-operative Societies.
4. B. Abdul Rahmon, Esq., B.A.
5. M. Ramachandra Rao Sindhia, Esq.

1. Introduction of legislation for regulating several matters affecting banking business.

The Committee considered the enclosed note prepared by the Secretary, containing the more important recommendations of the Central Banking Enquiry Committee. The Secretary referred to the appointment by the Government of India of a Special Officer to go into the question of amending the Law relating to Companies in British India and to the statements in the Press that his report was under the consideration of the Government of India with a view to take immediate action in the matter. He pointed out the need for guarding the interests of the depositors and shareholders of the banks by making suitable provisions for regulating their business. He referred to the several recommendations of the Central Banking Enquiry Committee summarised in the note and stated that if they were found suitable they might be incorporated in a separate Banking Regulation or in the existing Companies Regulation as amendments. The point for consideration was whether it was advisable to take immediate action here or to await the action by the Government of India in this behalf.

2 The Committee was of opinion that immediate action should be taken to amend the Companies Regulation with a view to regulate the business of the joint-stock banks in the State.

3 The chief provisions to be made were next taken up for consideration. The Chairman stated that one of the recommendations of the Banking Enquiry Committee was that no bank should be permitted to start the business unless it had at least a paid-up capital of Rs. 50,000. He enquired of the members if this limit might be adopted in the State. Mr. K. Srikantiah said that it was a modest figure and could be adopted and that no bank could work successfully unless it had at least a paid-up capital to the extent proposed. The sense of the meeting was that it was necessary to adopt this restriction.

4 Referring to the recommendation of the Banking Enquiry Committee that all banks should take out licenses from a recognised authority appointed in this behalf, the Chairman stated that it was desirable to introduce the system of granting licenses. He thought that it would be better if the licenses are issued by Government

and made subject to periodical renewals. It was pointed out by the members that the conditions of the license might include several recommendations of the Banking Enquiry Committee and that the law might provide suitable penalties for a breach of the conditions of the license. The Committee were of opinion that the system of issuing licenses might be introduced.

5 Mr. M. R. Narasimha Iyengar referred to the practice of some banks carrying on business in agricultural commodities and suggested the desirability of prohibiting banking business being combined with other businesses as recommended by the Banking Enquiry Committee. In the interests of sound banking, it was thought necessary to enforce this condition.

6 The question of introducing restrictions regarding the grant of loans and the nature and extent of securities to be accepted was next considered and as recommended by the Banking Enquiry Committee, it was found desirable to leave these matters to the discretion of the directors of the bank. The Chairman stated that the practice of a bank advancing loans on the security of its own shares should be stopped. It was also considered desirable to prohibit an auditor of a bank or a member of a firm of auditors appointed by a bank from receiving any advances. The members agreed that these provisions should be incorporated.

7 The Secretary then explained the recommendations of the Central Banking Enquiry Committee regarding the information to be furnished in the audit reports, the penalty to be imposed for not disclosing material particulars, the preparation of the balance sheet and its display in place of the statement of assets and liabilities required to be exhibited by the banks. The members thought that it was desirable in the interests of the shareholders to adopt these suggestions, particularly the one imposing a penalty on auditors for omitting to disclose material particulars.

8 The Committee considered the desirability of the law providing for declaring a moratorium in certain cases. The Chairman said that the effect of such a provision might lessen the responsibility of the management under the belief that when an emergency arose, a moratorium could always be resorted to. The members thought that the provision would be beneficial if it is sanctioned by Government only in extreme cases in the interests of the general public and shareholders.

9 Mr. K. Srikantiah brought to the notice of the Committee that the practice of voting by proxy at the annual general meetings of the companies was liable to abuse and wanted to know if it could not be stopped in the interests of the shareholders. The Banking Enquiry Committee had considered this question and were not in favour of any change in the existing practice of one vote for each share held by the shareholder in a joint-stock concern. They thought that it was possible for the promoters of a company to provide for safeguards in the Articles of Association against individuals or groups of individuals acquiring a controlling interest in the company. The views of the Banking Enquiry Committee were accepted.

10 The Committee finally resolved that without waiting for the final decision of the Government of India on the report of the Special Officer appointed to go into the question of amending the Companies Law, action might be taken here to amend the existing Companies Regulation as indicated above with a view to provide for regulating the business of the Joint-Stock Banks in the interests of the general public.

2 Introduction of legislation for regulating the working of the Life Assurance Companies in the State.

The Committee considered the note on the subject (copy enclosed) prepared by the Secretary. He explained the main features of the existing law in Britsh India and stated that the question of amending the existing Life Assurance Companies Act was under the consideration of the Government of India. He referred to the various suggestions made in this connection by the Life Assurance Offices Association and the Federation of the Indian Chambers of Commerce.

The necessity for legislation was discussed. The members examined the statement furnishing particulars of the Life Assurance Companies working in the State and found that several companies had started business without adequate capital. There was also a keen competition among them. A multiplicity of small life offices was not in the best interests of the society as a whole. Further the Government had introduced a scheme of Life Assurance for the benefit of the general

public. Having regard to all these factors, the members were of opinion that it was very necessary to introduce legislation for regulating the working of the Life Assurance Companies and that it should be made applicable to the companies registered here as well as to those that were registered outside but were doing business in the State.

The amount to be deposited by a Life Assurance Company engaged in the assurance business was next considered. The Committee considered the provision in the Indian Act (Section 4) and decided that a minimum deposit of one lakh of rupees might be prescribed here, as it would assure the starting and working of such companies with adequate capital on sound lines. The Committee thought that the other provisions of the Indian Life Assurance Act might be incorporated in the proposed Regulation in so far as they could be made applicable to the State.

One of the members suggested that Government might be requested to proceed with the legislation as early as possible. This was agreed to by the other members.

It was resolved to recommend to Government that it was necessary to introduce legislation in the State at an early date for regulating the working of the Life Assurance Companies with modifications as suggested above.

H. K. RAMIENGAR,
Secretary.

S. HIRIANNAIYA,
Chairman.

A note on Banking Legislation.

The question of introducing a special Banking Regulation has been referred to the Board for a detailed examination by the Financial Secretary to Government in his letter No. 832—G. F., dated 23rd July 1935.

According to the Annual Report of the Registrar of Joint-Stock Companies, the total number of joint-stock banks working in the State on 1st March 1935, was 49. Their authorised capital was Rs. 204 lakhs, subscribed capital Rs. 45 lakhs and the paid-up capital Rs. 41 lakhs. No statistics are furnished with regard to the deposits received from the public, reserves built up, nature and extent of advances made, balances on hand, etc. Besides the banks registered here, there were seven banks registered outside the State but carrying on business in Mysore. Complete information is not available as regards their authorised, subscribed and paid-up capital. The total paid-up capital of these may not go beyond Rs. 30 lakhs.

During the past 10 years, there has been no great improvement in the growth of the banking institutions in the country. At the end of the year 1924-25, there were 43 banks with an authorised capital of nearly Rs. 600 lakhs, subscribed capital of Rs. 90 lakhs and paid-up capital of 41·6 lakhs. There was only one foreign company registered outside the State and carrying on business here. There has always been a great disproportion between the paid-up, subscribed and authorised capital of the several companies. Most of the banks working in the State are concentrated in Bangalore, Mysore and a few other places in the interior.

At present there are only four banks with a paid-up capital of and over a lakh of rupees. Six banks have a paid-up capital of Rs. 50,000 and over and 15 banks have a paid-up capital of less than Rs. 10,000. It is not known how many of these have strictly been confining, their attention to the business of banking only or carrying on banking with other trade operations. There is no information available regarding the extent to which they have been financing the industries and trade of the country.

Apart from the joint-stock companies, private banking firms have been doing business in the State from a very long time. The total number of such firms is estimated at 25, mostly owned by Multanees from Sind-Hyderabad and Marwaries, the indigenous firms being only a few in number. The Multani bankers have been financing the trade and industries in the State to a great extent. Their trading operations are extended all over the State and cover several important lines of business. They largely import capital from Bombay and Sind at very low rates of interest. Great care is taken to see that the capital is used for productive purposes only. They also have a regular transaction with the joint-stock banks and see that

their capital is rapidly circulated. The chief factors that have contributed to their success are the facilities they have for borrowing capital at low rates of interest; their character, business ability and integrity and their readiness to avail themselves of the facilities offered by the local joint-stock banks. The Marwari money lenders generally make advances to those who purchase goods from them. Both Multanees and Marwaries are not bankers in one sense in as much as they do not attract any deposits from the public in the State. In all other respects, they perform the functions of the banks.

To meet the growing needs of the State in the matter of capital for financing industries and to foster the development of banking on sound lines, it is desirable to introduce legislation to regulate the business of the banks. Restrictions are imposed on the banking operations in some form or another in the several countries in Europe and America according to their requirements. Joint-stock Banks in India are governed by the Indian Companies Act in regard several matters such as constitution, incorporation, articles of association, share capital, maintenance of the register of members, management and administration, inspection and audit, liquidation, publication of balance-sheets, appointment of directors, etc., etc. It is the general opinion expressed in several quarters that the Companies Act touches only the fringe of the problem of banking legislation and that there should be some more legislation for regulating the operations of the banking institutions in the country.

This question has been engaging the attention of the Government of India for several years past. The Central Banking Enquiry Committee made a careful examination of this subject and they were not in favour of introducing elaborate banking regulations in regard to matters which it would be prudent to leave to the discretion of the directors and management. At the same time, they recognised the existing provisions in the Companies Act with regard to banking institutions were very inadequate. There were two ways in which the existing regulations could be amplified, *viz.*, (1) by introducing a special Banking Act with suitable provisions governing all banking institutions or (2) by amplifying the Indian Companies Act so as to provide for the additional matters to be dealt with by legislation. The Committee finally preferred the first alternative and recommended that a special Banking Act should be passed comprising the existing regulations embodied in the Indian Companies Act with modifications and additional provisions referred to below. They also urged that the foreign banks operating in India should be brought within the purview of the proposed Act.

The important provisions recommended by the Committee for being incorporated in the proposed act may be considered under the following heads, *viz.*, organisation, management, audit and inspection and liquidation and amalgamation.

(1) *Organisation.*—All banks—Indian or non-Indian—should be required to take out licenses from a recognised authority appointed in this behalf, *e.g.*, the Reserve Bank of India. This is felt to be necessary with a view to safeguard the interests of the depositors and also to facilitate some control being exercised over the banking operations in the country. Before the licenses are granted, the financial position of the new banks, and the general standing and reputation of its directors are required to be carefully scrutinised. The Act should also provide that the majority of the directors of the banks, other than the foreign banks, should be the natural born or domiciled Indians and that no new bank other than the foreign bank should be allowed to operate unless it had a majority of Indian shareholders and was incorporated under the Indian law. The banking business should not be allowed to be combined with the business of trade. The Committee also recommended that the law should prohibit the organisation of a bank on the managing agency system and also provide that any arrangement made subsequent to the passing of the law for conducting the management of a bank on such a system should be void. Further, the law should prevent the growth of mush-room banks with insufficient capital. No bank should be allowed to commence business unless it had a paid-up capital of Rs. 50,000. The authorised capital of a bank should not be more than double the subscribed capital and the paid-up capital should be 50 per cent of the subscribed capital before the commencement of the business.

(2) *Management*—There should be no distribution of dividends in any year until the bank had set aside for being taken to the reserve, an amount equal to $2\frac{1}{2}$

per cent of the paid-up capital and that this restriction should be in operation until the reserve fund reached the level of the paid-up capital. The Committee considered several suggestions for insisting on the banks the need for holding a minimum reserve cash. Such a provision was considered necessary to prevent the cash reserve of a bank being depleted to a point endangering its solvency. They concluded that it was not desirable to prescribe any statutory provisions in this behalf. Similarly the grant of loans, securities to be furnished, the limit of advances to be made in individual cases,, etc., require to be regulated according to sound banking principles and it was found not advisable to lay down any hard and fast rules to regulate these matters. The Committee therefore decided to leave these to the discretion of the management and control of the board of directors. But with regard to the grant of advances by a bank against its own shares, they were of opinion that there should be a clear provision made in the Act prohibiting the grant of such advances and prescribing limitations for making loans to the directors, managers and members of the staff of the bank. Similarly an auditor of a bank or a member of a firm of auditors should be prohibited from receiving any advances from the bank. As regards borrowing powers of the bank, they recommended that there should be a provision expressly prohibiting banks from creating at any time a mortgage or any charge on their uncalled capital or any part thereof.

(3) *Audit and Inspection.*—It was brought to the notice of the Committee that the auditors were in the habit of passing over important matters which should have been brought to the notice of the shareholders. The existing law provides that whoever makes a false statement knowing it to be false is liable to punishment. But it does not provide any penalty for omitting to make a statement. The Committee therefore recommended that there should be specific provision rendering officers or auditors of a bank liable to punishment, if they omit to mention material facts in their reports, presentation of accounts, etc.

The Committee recognised that there was justification in the demand that the balance-sheets now published by the banks should contain more information than what it is usually embodied therein at present. The form of the balance-sheets now in vogue was considered to be not comprehensive enough. More detailed particulars were required to be furnished by the banks especially as regards the book-debts, loans to the directors and officers and the nature and value of the investments. At present the banks need not disclose the bad and doubtful debts if against such debts suitable provision had been made to the satisfaction of the auditors. The new form of balance-sheet to be prescribed by law was suggested by the Committee. Every bank is required to make a statement in the prescribed form regarding its assets and liabilities and the Committee recommended that in lieu of this statement the banks should display a copy of their entire balance-sheet.

(4) *Liquidation and Amalgamation.*—The Committee recommended that the law should permit a temporary moratorium to prevent untimely and compulsory liquidation of a bank when it is in difficulties. The desirability of protecting banking institutions against wild rumours and unjust attacks was forcibly brought to the notice of the Committee. After considering the various suggestions to prevent such attacks, the Committee stated that they were not in a position to suggest any legal remedy but wanted to leave it to the Legislature to protect banks from such frivolous proceedings.

The Committee felt that it was necessary to provide special safeguards for protecting the interests of the Indian depositors and creditors of a non-Indian bank in the event of its winding up. They recommended that there should be some arrangement under which the Indian creditors of a non-Indian institution going into liquidation should have a prior claim to its assets in India and also a share in the general distribution of its assets outside the country, should there be a shortage in the assets held in India.

The question of introducing a special banking legislation was also considered by the Ceylon Banking Commission (1934) presided over by Sir S. N. Pochakhanawalla. The Commission recommended the desirability of introducing legislation on the lines indicated above with suitable modifications. The Commission advocated the maintenance of a register of banks, the issue of licenses to the registered banks, the grant of a certificate for commencing business, etc. One of the conditions

to be satisfied is that every bank should have a minimum paid-up capital of Rs. 50,000 before it started business.

It is a point for consideration whether it is not desirable to await the action that may be taken by the Government of India on the recommendations of the Central Banking Enquiry Committee and also on the recommendations of the Committee that may be constituted for considering the report of the Special Officer appointed by the Government of India to enquire into the working of the Indian Companies Act.

H. K. RAMIENGAR,
Secretary.

Note on the introduction of legislation for regulating the working of the Life Assurance Companies.

The statement appended to this note gives particulars of the Life Assurance Companies, both local and foreign, working in the Mysore State on 31st March 1935. The information was kindly furnished by the Registrar of Joint-Stock Companies in Mysore. It is seen from the statement that there were in all 17 companies working in the State, of which only five had a paid-up capital of more than a lakh of rupees and that there was a great disproportion between the paid-up capital of these companies and the authorised capital. As many as six of these companies had a very small paid-up capital ranging from Rs. 2,000 to Rs. 18,000.

In British India, the working of the life assurance companies is governed by the Indian Life Assurance Companies Act of 1912 as amended in December 1928. The provisions of the Act are applicable to all companies carrying on life assurance business within British India. Every company is required to deposit with the Controller of Currency two lakhs of rupees invested in Government Securities. If a company transacts other business besides that of life assurance, it is required to maintain separate accounts in respect of its life assurance business only and the life assurance fund kept separately should form the security of life policy holders. Provision is made for the preparation and submission of the revenue accounts, profit and loss accounts and balance-sheets in the prescribed form and for the publication by Government once a year of the information furnished by the companies. The accounts of the assurance companies are required to be audited every year. Once in five years, the financial conditions of their affairs—including their liabilities, valuation of their securities, etc., are required to be investigated by Actuaries and their reports are to be furnished in the prescribed form. Government may also appoint, when necessary, one or more inspectors to examine the affairs of the life assurance companies and to submit reports thereon. The law provides for the absorption of the weaker companies by the stronger ones and special provisions are made for the winding up of the companies. The penalty prescribed for the breach of the provisions of the Act is a fine extending to Rs. 1,000. If any account, balance-sheet, statement, etc., is found to be false, the person responsible for the same is liable to imprisonment which may extend to two years or with fine or with both.

Government of India appointed a Special Officer to examine the working of the Indian Companies Act and to submit his proposals for amending the Act. It is seen from the reports in the press that the proposals submitted by him are being considered by the Government with the representatives of Indian Trade and Commerce. It is too early to see what action the Government are likely to take with regard to the amendment of the Indian Life Assurance Companies Act.

The Indian Life Assurance Offices Association and the Indian Merchants' Chamber and Bureau, Bombay, have submitted to Government of India some useful suggestions in this connection. They urge that the present Act should be repealed and in its place a new comprehensive Act should be introduced covering all forms of insurance as life, fire, marine, motor car, personal accidents, employer's liability, fidelity guarantee, cattle insurance, etc. The law should also regulate the operations of the non-Indian companies working in British India. They point out the necessity of organising a separate Department of Insurance with the Government of India and of providing the officers of that department with powers to exercise effective control over the life assurance business carried on both by Indian and non-Indian

companies. They suggest that the assurance companies working in British India should have full liberty of carrying on business in Indian States and that the States should be precluded from enacting any laws which might affect the working of these companies within the jurisdiction of the States. Both the Merchant Chamber and the Association of Life Offices point out the need for introducing some uniform principles governing the inheritence of money falling due for payment under a policy of life assurance. The introduction of a system of licensing the agents of the assurance companies is recommended with a view to raise the standard of conduct among the agents and also to facilitate disciplinary control being exercised over them.

A few extracts from the Year Books regarding the defects in the working of the Assurance Companies are given below.

"The advent of a large number of new companies has resulted in intensifying the struggle for existence and forcing up expenses to uneconomic levels. Most of the companies of under 20 years' standing have not yet secured a footing and the indiscriminate flotation of new life assurance companies will not be conducive to the best interests of the enterprise in India."

* * * *

"Again most of the recently established companies have been started with a small amount of subscribed capital and some of them have even spent in preliminary and organisation expenses almost the whole of their paid-up capital."

* * * *

"It is generally noticed that a high lapse rate coincides with a high expense ratio and this holds good in the case of Indian Life Offices. There are still many companies which conduct their business at a cost considerably in excess of the provisions for expenses made in the premium payable under the policy contracts."

H. K. RAMIENGAR,
Secretary.

Statement furnishing particulars of Life Assurance Companies working in the State on 31st March 1935.

	Name	Address	Capital				
			Authorised	Subscribed	Paid-up		
			Rs.	Rs.	Rs.	a.	p.
1.	The Asiatic Government Security Life Assurance Company, Ltd.	No. 2866, Chamundi Extension, Mysore.	1,68,585	1,68,585	1,68,585	0	0
2.	Reliance Assurance Company, Ltd.	No. 7/95, New Tharagupet, Bangalore City.	5,00,000	53,300	22,275	0	0
3.	Mysore Mutual Benefit Association, Ltd.	No. 1779, Dodpet, Sagar ...	1,00,000	4,000	...		
4.	Sri Jayalakshmi Insurance and Banking Company, Ltd.	No. 11, Surveyor Street, Basavan gudi, Bangalore City.	2,00,000	7,550	1,970	0	0
5.	Mysore Insurance Company, Ltd.	Sri Narasimharaja Road, Bangalore City.	3,00,000	82,300	18,730	0	0
6.	Modern India Insurance Company, Ltd.	No. 26, Gandi Nagar, Bangalore City.	1,00,000	2,000	2,000	0	0
7.	Bharat Insurance Company, Ltd.	Bangalore City. ...	10,00,000	Latest balance	sheet not received		
8.	Commonwealth Assurance Company, Ltd.	Sri Krishna Buildings, Avenue Road, Bangalore City.	5,00,000	2,00,000	1,62,615	0	0
9.	Country Assurance Company, Ltd.	Avenue road, Bangalore City ...	1,00,000	Latest balance	sheet not received		
10.	General Assurance Society, Ltd.	III Road, Chamarajpet Bangalore City.	5,00,000	4,65,325	1,33,325	0	0
11.	United India Life Assurance Company.	No. 157, Narasimharaja Road, Bangalore City.	2,00,000	...	79,400	0	0
12.	Venus Assurance Bank, Ltd.	No. 11, Cavalry Road, Bangalore	10,00,000	5,00,000	1,70,177	8	0
13.	Zenith Life Assurance Company, Ltd.	No. 129, Rangaswamy Temple Street, Bangalore City.	1,00,000	1,00,000	50,000	0	0
14.	India Equitable Insurance Company, Ltd.	No. 158, Narasimharaja Road, Bangalore City.	10,00,000	...	1,02,275	0	0
15.	Guzerat Popular Insurance Company, Ltd.	No. 89, Balepet Bangalore, City.	20,000	3,700	3,700	0	0
16.	Kurukshetra Insurance Company, Ltd.	Cottonpet, Bangalore City ...	1,50,000	10,890	3,997	0	0
17.	Shree Life Insurance Company, Ltd.	Oosmania Buildings, Sri Narasimharaja Road, Bangalore City.	1,00,000	12,000	12,000	0	0

WD 1645—GPB—100—19-3-36

G.7 68-36-8

Extract from the proceedings of the fifth meeting of the Board of Industries and Commerce held on 29th July 1936.

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Rajasevasakta Mr. S. Hiriannaiya stated that the Trade, Commerce and Labour Sub Committee had examined the recommendations of the Central Banking Enquiry Committee on the subject and that, in their opinion, it was desirable to amend the existing Companies Regulation at an early date. He then explained the main provisions that should be introduced for regulating the business of the joint stock banks in the interests of the shareholders and depositors. Rao Bahadur B.K. Garudachar stated that the provision for setting aside 2½ per cent of the net profits for the reserve fund was not necessary as most of the banks were setting apart a much larger proportion of their profits for this purpose. He pointed out that there was no necessity for insisting upon the debts due by the individual directors of the banks being shown separately in their balance sheets. Mr. M.H. Dastur observed that this provision was not in the interests of the banks and their business.

II. Introduction of legislation for regulating several matters affecting banking business.

Rajasabhabhushana Diwan Bahadur K.R. Srinivasa Iyengar stated that he could not agree with the recommendations of the Sub Committee for the early amendment of the Companies Regulation. It was necessary that in due course the entire Companies Regulation should be amended to bring it into a line with the amended Indian Act. He failed to see the need for early action as suggested by the Sub Committee. He was of opinion that some of the restrictions recommended to be imposed on the joint stock banks were not necessary, e.g., the issue of lincese to banks, revision of the balance sheets, restrictions on voting rights, etc. Rajasabhabhushana Sir C.V. Raman stated that though the matter was not one of urgency, there was, however, a prima facie case for introducing certain

certain restrictions on the working of the joint stock banks as they handled public funds. Rao Bahadur B.K. Garudachar pointed out that some restrictions in law were necessary so that banks with insufficient capital did not commence business. He particularly referred to many outside banks opening their branches in the Mysore State and stated that they wanted to attract deposits here with a view to invest them outside the State but they were all disappointed as more people went to them for borrowing than for making deposits with them.

The sense of the meeting was that it was desirable to defer taking action as regards the introduction of legislation to regulate the working of the joint stock banks till the draft Bill amending the Comapnies Act introduced in the Legislative Assembly was passed and that if the Bill was not passed into law in about a year, Government be requested to introduce legislation on the lines recommended by the Sub Committee.

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" E x t r a c t "

H.K. Ramiah
Secretary,
Board of Industries & Commerce.
11-8-36.

Serial No.

Part IA Banking Companies

The restriction on the commencement of business of joint stock companies have been further supplemented in the case of banking companies by the new sec 277 series of sections 277 A - N.

The new banking companies have been precluded from commencing business unless shares have been allotted to an amount sufficient to yield a sum of at least fifty thousand rupees as working capital and unless a declaration, fully verified by an affidavit signed by the directors and manager that such sum has been received by way of paid up capital, has been filed with the registrar.

The Trade, Commerce and Labour Sub-committee of the Board of Industries and Commerce, Mysore, ~~report~~ have recommended that "a system of issuing licences might be introduced" (vide sub-committee proceedings of 19-2-1936). The committee do not state whether the issue of licenses refers to local banking enterprise or any to the banking companies which are incorporated outside Mysore ~~but which open branches in the State~~ and open branches in Mysore.

WD 0417--GPB—30,000—8-9-36

Serial No.

The Indian Central Banking Enquiry Committee recommended the licensing of non-Indian banks and their recommendation is as under:-

"All non-Indian banks intending to do banking business in India should be required to take out a license from the Reserve Bank. Licenses should be freely granted to banks already established. Every license should be in force for a stated period and should be automatically renewed if the licensing authority is satisfied that the provisions of Indian law applicable to the banks and other conditions specified in the license are complied with." (Vide P 511 of the majority report Vol I).

The recommendation of the Minority (Vide Page 622 of the Minority Report) in this regard is as follows:-

"The open door to foreign banks in India should cease and a system of licenses should be established. The issue of a license must be a matter of absolute discretion of the authority, on whom the duty is fixed, and its renewal must also be a matter of their judgment. It is undesirable", they continue "that a system of licensing should be instituted for

Serial No.

Indian banks also. The object of licensing foreign banks is to protect different classes of Indian public and Indian institutions from unsound foreign banks, from malpractices, unfair competition, anti-social and anti-national activities, which they might indulge in".

Following these recommendations, a system of licensing non-Mysorean banks which seek to open branches in Mysore may perhaps be introduced. No restriction has been introduced in British India either in the recent Companies Amendment Act or in the Reserve Bank of India Act, against foreign banks carrying on business in British India. If the proposal regarding licensing of foreign banks is approved, a new section as under may be introduced as 277 A —

"Every bank, which is not registered in Mysore, and which seeks a license to work in Mysore may, on application, be given a license at the absolute discretion of the Government. This license would be renewable every two years and the Government shall have absolute power to refuse renewal, when, in their opinion, in the interest of the country, such renewal would be justified".

The terms of the license may perhaps be made to include the following :—

NOTE—Contn. Sheet.

(1) The assets of the licensed bank, in the event of liquidation, would be liable to be taken possession of by the Official Receiver of the High Court of Mysore, and the license is issued on the basis that the licensee agrees that ~~[illegible]~~ Mysore ~~[illegible]~~ the creditors in Mysore will have a full prior right in such assets.

(2) Copies of all statistical returns, reports, papers and balance sheets, prepared in connection with the Mysore business ~~[illegible]~~ and ~~supplied~~ to their head offices, would have to be lodged with ~~the [illegible]~~ the Government.

(3) All information in the form, in which it is desired by the Government, relating to business done in Mysore, would have to be given by the bank. The Government will have absolute discretion, as to which of this information should be published.

Submitted for orders.

[illegible]
8/9/37

NB. As regards (1), it may be argued that if the Bank should transfer most of its assets to Bombay or keep insufficient assets in Mysore, the restriction imposed may not have any desirable effect. It is therefore a point for consideration whether the licensed banks should or should not be restricted from borrowing in Mysore in excess of its total advances in Mysore —

[illegible]

2-7-9 [illegible]

PROCEEDINGS OF THE GOVERNMENT OF HIS HIGHNESS
THE MAHARAJA OF MYSORE.

R e a d:-

Correspondence ending with letter No.C.393/36-37 dated the 5th December 1936, from the Registrar of Joint Stock Companies in Mysore and letter No.458 dated 22nd April 1937 from the Secretary to the Board of Industries and Commerce in the matter of amending the Mysore Companies Regulation of 1917 on the lines of the Indian Companies' Act 1936 and requesting Government to take necessary further action.

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O R D E R No. D 160-67/J.S. 33-35-8

Dated Bangalore the 5th July 1937.
6th

The law relating to Companies having been amended in British India in October 1936 it has become necessary to amend the Mysore Companies Regulation of 1917 in order to bring the law here in uniformity with that of British India. The question of introducing legislation for the proper regulation and control of banking and insurance companies in the State also has become urgent. Further, it has been found necessary to amend the Income-Tax Regulation in certain particulars as this law also has undergone changes in British India.

As these questions are urgent and cannot be taken up piecemeal, Government consider it necessary to appoint a special officer to draft carefully the following bills:-

(1) The Companies Amendment Bill including Banking.

(2) The Insurance Bill.

(3) The Income Tax Amendment Bill.

They are accordingly pleased to direct that Mr.A.V. Krishna Murthy, B.A., B.Com. Assistant Comptroller (Supernumerary) be placed on Special Duty in the Secretariat for a period of three months in the first instance to draft the above bills. He will consult the Departments concerned, and

obtain

obtain necessary instructions from Government at each stage, as the work progresses

The Heads of the Departments concerned are requested to give Mr.Krishnamurthy all the facilities and information that he may need in drafting the bills. The Registrar General and Revenue Secretariat is requested to arrange for the necessary clerical assistance. The cost on this account will be met by re-appropriation from the provision under "12 General Administration" in the Budget for 1937-38.

The Comptroller is requested to arrange for the relief of Mr.Krishnamurthy so that he may enter on his new duties immediately.

Government desire that the work of drafting the bills should be completed in time, to enable them to place the bills before the Representative Assembly, during the ensuing Dasara Session, 1937.

For Secretary to Government
Development Department.

To

The Director of Industries and Commerce.
The Registrar of Joint Stock Companies.
The Comptroller to Government through Financial Deptt.
The Secretary, Mysore State Life Insurance Committee.
The Chief Secretary to Government.
The Financial Secretary to Government.
The Secretary, Board of Industries and Commerce.
The Commissioner of Income Tax in Mysore.

c.n.8